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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

23 February 1955

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: The Situation and Prospects in Guatemala\*

1. Since Castillo Armas' assumption of power after the June-July 1954 revolution, the situation in Guatemala has generally been characterized by inept government, continuous internal political tensions, and depressed economic conditions, including serious unemployment. The failure to provide effective political leadership and economic opportunity has resulted in the slow erosion of confidence in the new administration. This adverse movement of opinion has been abetted by Castillo's inability to obtain implementation of a substantial US economic aid program as rapidly as was widely expected after his accession. However, Castillo's demonstrations of a firmer hand since his crushing of an incipient coup on 20 January, together with the implementation of the US aid program, suggest that the stability of the government is improved at least temporarily. However, such stability will not be maintained unless there is either an increase in Guatemala's income from coffee exports or additional outside aid.

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\*The findings of this estimate are concurred in by OOI and the relevant branch of DDP. It has not been coordinated with the IAC agencies.

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Political

2. Castillo Armas enjoys virtually dictatorial powers in Guatemala and political parties are banned. The Army still wields ultimate power. Castillo has attempted to consolidate his control of that force by promising it special benefits and assigning trusted associates to key positions, and in January the army did in fact support his suppression of an incipient coup. His government obtained "legitimization" in the election of a constituent assembly on 10 October 1954, and in November Castillo was sworn before that body to a presidential term to last until March 1960. Although a new Constitution is presently being drafted, Castillo is endeavoring to delay its promulgation for at least a year, and to continue to rule by decree for as long as possible.

3. Despite his authority, Castillo has been unable to provide vigorous political leadership. Having come to power with the support of elements varying broadly from extreme right to non-Communist left, and trusting none of them, he has been pulled first one way and then another by his advisors. Castillo's weakness and indecision, together with continuing squabbles within his administration among the pro-clerical conservatives, anti-clerical liberals, and top army officers, have consistently impaired effective political direction in Guatemala. In recent months, the coalition of anti-Communist groups which support Castillo began to disintegrate. Disillusionment with Castillo's arbitrary measures and unpredictable attitudes, aggravated by unsatisfactory economic conditions, stimulated public demands for a return to constitutional democracy. A Communist underground has resumed a limited circulation of propaganda; four top Communists under the Arbenz regime are still at large, possibly still in Guatemala. Since last November rumors have circulated of impending plots against the regime by dissident non-Communist elements and also by Communist exiles in Mexico and El Salvador.

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4. On 20 January, facing the first major challenge to its power since the 2-3 August rebellion, the Castillo government decisively put down an incipient coup organized by leftist dissident elements, including some former army officers who had served the Arbenz administration. Although the coup centered in a military clique, civilian elements were involved in the conspiracy, and some 500 allegedly implicated individuals were jailed or banished. A state of siege was immediately proclaimed.

5. By mid-February, tensions on the political scene had somewhat relaxed, and the immediate effects of the 20 January affair have tended to be favorable to Castillo. At least for the short term, greater popular respect for the regime was inspired by the fact that key Army officers remained loyal, and apprehension of further plots was reduced. Castillo's steps to improve his administration, particularly the reorganization of his cabinet and secretariat, further encouraged popular support. In addition, Vice-President Nixon's recent visit helped to bolster the regime.

6. However, events since 20 January suggest that Castillo has yielded at least temporarily to his advisors of the extreme right. Many of the 500 imprisoned or banished were critics of the regime who apparently had little or nothing to do with the plot. In recent days, the government has moved to substantially restrict trade union organization in Guatemala, including proscription of union activity among farm workers, and to restrain "irresponsible" elements of the free press. If persisted in, such actions to undo the popular reforms of recent years will cost Castillo a sizeable element of his left-of-center supporters and will aggravate political tensions, particularly if economic conditions should fail to improve.

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Economic

7. Agriculture is Guatemala's most important economic activity. It employs more than 75 percent of the labor force, and accounts for almost half of the gross national product. As a whole, agricultural products comprise nearly 90 percent of the value of Guatemala's exports, but coffee alone accounts for about 80 percent. The gross national product in 1953 (at 1950 prices) was \$526 million, or about \$170 per capita. This per capita figure is slightly higher than that for any neighboring country. Although the national treasury was looted by the Arbenz regime, national reserves currently stand at about \$42.5 million and the quetzal is being maintained as a hard currency.

8. Since taking power, the Castillo government has been faced with a consistently difficult economic situation. Economic activity has recovered from its mid-1954 low to about the level of a year ago. However, business conditions are still depressed, business leaders still lack confidence in the government, and recovery has fallen substantially short of public expectation. It is estimated that as much as \$50 million of private Guatemalan capital remains outside the country. Unemployment remains substantially higher than under the Arbenz government, and there is strong popular dissatisfaction over advances in the cost of living.

9. Although government expenditures have recently been in virtual balance with revenues, the government can provide no funds for new public investment. Moreover, coffee exports are moving slowly because coffee growers are unwilling to sell at the prices currently offered. By mid-February Guatemala had exported approximately one-third of its current crop as compared with 45 percent a year ago. On the most optimistic estimate, foreign exchange earnings for the present crop year will reach only some \$62 million, as against \$79 million last year, in view of the lower prices in the New York market, which are now some 30 percent below their postwar peak. Similarly, the slow movement of coffee

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to market is reducing the government's expected tax revenues and may force the government into either deficit financing or a politically dangerous retrenchment of expenditures.

10. On the other hand, the \$6.4 million US economic aid program announced last October is now underway. Guatemala has applied for a \$5 million Export-Import Bank line of credit. The new agreement with the United Fruit Company, if fully carried out, will raise the government's income by about \$1.5 to \$3 million annually. Such developments will help somewhat in easing Guatemala's economic difficulties.

11. Although Guatemalan laws are now favorable to local investment of new foreign capital, such investment has not taken place in any appreciable degree. There is some prospect of expanded investment on the part of United Fruit and Empresa Electrica (American and Foreign Power Corporation) and also new investment on the part of oil interests if a satisfactory Petroleum Law (now under consideration) is enacted. However, such benefits would accrue only over the longer term.

#### Prospects

12. Political tensions are likely to remain high in Guatemala and the administration is likely to continue to suffer from Castillo's inexperience, vacillation, dearth of competent subordinates, and reluctance to accept advice from qualified sources. However, we believe that Castillo will be able to retain office for the foreseeable future, because of his control of the armed forces through key officers, the inflow of US economic aid, and the demonstrations of US confidence in the regime which are implicit in the aid program.

13. The principal threat to the stability of the regime is general economic discontent. The factor of US grant and loan aid will serve to abate such discontent, or at least to prevent it from reaching explosive dimensions, provided that the Guatemalan coffee crop moves in time and at satisfactory prices. Should the crop fail so to move, the Castillo government would almost certainly need prompt additional external assistance in order to preserve its position.

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14. The Guatemalan Communist underground almost certainly will continue to be active. Continuation of a rightist trend in government policy, particularly of actions to inhibit trade union organization, would aggravate political tensions and it probably would give some encouragement to Communist recruitment activities. However, the Party has no supporters in key government positions. It is not likely to increase substantially or become a threat to the stability of the regime in the short term.

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